

## Message Text

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ACTION NEA-16

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S E C R E T CAIRO 4859

E.O. 11652: GDS

TAGS: PFOR

SUBJ: JOINT WORKING GROUPS-PRIVATE INVESTMENT  
FOR JOINT VENTURES AND TRADE

REF: CAIRO 4703

1. SUBMITTED HERewith ARE OUR COMMENT ON THE ORGANIZATION OF JOINT WORKING GROUP(JWG) ON PRIVATE INVESTMENT FOR JOINT VENTURES AND TRADE. IT WILL BE NOTED THAT PARA IV, 2 OF US-EGYPTIAN DECLARATION OF JUNE 14, 1974 SPELls OUT IN SOME DETAILS WHAT BOTH SIDES ENVISAGE AS THE RESPONSIBILITIES OF THE JWG. SAME PARA IN DECLARATION HAS GIVEN RISE TO THE WIDESPREAD LOCAL EXPECTATIONS OF A \$2 BILLION INFUSION OF INVESTMENT CAPITAL.

2. BACKGROUND: GIVEN THE LIKELIHOOD THAT USG OFFICIAL FUNDS WILL BE LIMITED, WE BELIEVE THAT MAJOR EMPHASIS SHOULD BE PLACED ON ATTRACTING PRIVATE AMERICAN INVESTMENT CAPITAL AND KNOW-HOW. THIS JWG WILL THEREFORE BE ESPECIALLY IMPORTANT. EGYPT HAS PLACED ITSELF ON PUBLIC RECORD AS WISHING TO ENCOURAGE

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PRIVATE INVESTMENT, BUT ITS DEEDS TO DO SO STILL FALL

SHORT OF ITS WORDS. A NEW INVESTMENT LAW HAS INDEED BEEN PASSED. HOWEVER, BECAUSE OF GOE SENSITIVITY TO POSSIBLE CRITICISM IN THE PEOPLE'S ASSEMBLY THAT THE PRINCIPLES OF ARAB SOCIALISM WERE BEING GIVEN UP THE LAW IS A SOMEWHAT WISH-WASHY COMPROMISE. AWARE OF THIS, DEPRIM HEGAZI HAS ISSUED AN INTERPRETIVE MEMORANDUM. HE ALSO PROMISED THE AMBASSADOR SOME ANSWERS TO A NUMBER OF QUESTIONS RAISED BY THE LATTER ON APPARENT SHORTCOMINGS OF THE LAW. ADDITIONALLY, EGYPT'S CHRONIC SHORTAGE OF HARD CURRENCY HAS (A) LIMITED REPARABLE PROFITS TO SIXTY PERCENT OF NET EARNINGS AND (B) CAUSED A DE FACTO DELAY IN ALLOCATING FOREIGN EXCHANGE FOR THIS PURPOSE FROM ANYWHERE FROM TWO TO THREE YEARS. FOR WESTERN BUSINESSMEN THE SPECTRE OF NASSER'S EARLIER NATIONALIZATION STILL LINGER. JWGS'S PRIMARY TASKS, THEREFORE, WILL BE TO REBUILD CONFIDENCE THAT RECOGNIZED EGYPTIAN INVESTMENT OPPORTUNITIES WARRANT RISK.

3. ORGANIZATION:

A. MEMBERSHIP AND VENUE: GROUP SHOULD NORMALLY MEET IN CAIRO. ON EGYPTIAN SIDE, WE WOULD EXPECT HEGAZI'S OFFICE TO BE INVOLVED ALONG WITH MINISTERS OF FINANCE, COMMERCE AND INDUSTRY. ACTION AGENT MAY WELL BE EGYPTIAN DEVELOPMENT ORGANIZATION HEADED BY TAHIR AMIM. ON US SIDE, WE SUGGEST AMB AND/OR DCM AND COMMERCIAL ATTACHE WHEN GROUP MEETS IN CAIRO. HOWEVER, UNLIKE OTHER JWGS, WE SUGGEST THAT THIS GROUP MIGHT HAVE ITS FIRST OR SECOND MEETING IN THE US--PERHAPS CONCURRENTLY WITH AUGUST JCC MEETING--AND BE INAUGURATED AT THAT TIME BY THE SECRETARY OF THE TREASURY. SUCH A VENUE WOULD OFFER EXCELLENT OPPORTUNITY FOR EGYPTIAN FINANCIAL LEADERS TO MAKE THEIR CASE KNOWN DIRECTLY TO AMERICAN BUSINESS COMMUNITY AND HOPEFULLY RECEIVE SOME GOOD PUBLICITY. AS A SPINOFF BENEFIT, IT MIGHT ALSO ENABLE EGYPTIANS TO DEVELOP A BETTER FEEL OF WHAT AMERICAN INVESTORS BELIEVE THEY NEED.

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B. JOINT ECONOMIC COUNCIL: IN THIS CONTEXT, THE JOINT ECONOMIC COUNCIL, WHICH WILL INCLUDE REPRESENTATIVES FROM THE PRIVATE ECONOMIC SECTOR OF BOTH COUNTRIES, COULD BE INVITED TO CONVENE SIMULTANEOUSLY OR SEQUENTIALLY IN ORDER TO BROADEN CONTACT BETWEEN PRIVATE BUSINESSMEN ON BOTH SIDES. THE AMERICAN CHAMBER OF COMMERCE OF THE BIC COULD BE USEFUL INSTRUMENTS TO FURTHER THIS PROCESS. IT

IS LESS CLEAR WHO MIGHT EQUITABLY REPRESENT THE EGYPTIAN PRIVATE SECTOR. SINCE WE MAY EXPECT CONSTANT CONCERN THAT ANY INDIVIDUAL OR GROUP OF BUSINESSMEN WILL BE INTERESTED PRIMARILY IN BENEFITING HIMSELF OR THEMSELVES, EGYPTIAN PARTICIPATION WILL PROBABLY HAVE TO BE BROADER. CONCEIVABLY, CAIRO CHAMBER OF COMMERCE, WHICH IS THE LARGEST OF CAIRO'S MUNICIPAL CHAMBER, MIGHT SERVE THE PURPOSE. WE WILL HAVE TO EXPLORE THIS FURTHER BEFORE MAKING DEFINITIVE RECOMMENDATIONS.

C. FUNCTIONS OF JWG

(1) CONSIDER PRESENT OBSTACLES TO PRIVATE INVESTMENT;

(A) CONSIDER ADEQUACY OF NEW INVESTMENT LAW AND OF HEGAZI'S INTERPRETATIVE MEMORANDUM AND WHAT MIGHT BE DONE TO STRENGTHEN THESE.

(B) EXPLORE OUTSTANDING US PUBLIC AND PRIVATE CLAIMS ON WHICH SOME ACTION IS NEEDED IF OPIC GUARANTEES ARE TO BE RESTORED.

(C) ENCOURAGE GOE TO TAKE VIGOROUS STEPS TO ENSURE THAT LOWER LEVEL MEMBERS OF THE EGYPTIAN BUREAUCRACY (CUSTOMS, IMMIGRATION, TELEGRAPH, ETC.) TREAT BUSINESSMEN WITH THE POSITIVE SPIRIT NEEDED TO GIVE EFFECTIVE IMPLEMENTATION TO THE LAW. (NOTE: SO MAY WELL-MEANT LAWS FOUND ON THE ROCKS OF A PETTIFOGGING EGYPTIAN BUREAUCRACY).

(2) IDENTIFY THE VARIOUS VENTURES MENTIONED IN PARA IV, 2 OF THE DECLARATION (WHICH HEGAZI SAYS AMOUNT TO ABOUT \$2 BILLION) IN ORDER TO ASCERTAIN THEIR PRESENT STATUS AND GIVE SUCH HELP AS NEEDED TO EXPEDITE CONCLUSION.

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(3) WORK WITH GOE TO GIVE WIDE PUBLICITY TO EGYPTIAN ECONOMIC OPPORTUNITIES.

(4) ARRANGE US PARTICIPATION IN ANNUAL CAIRO TRADE FAIR.

(5) SEEK OPPORTUNITIES FOR AMERICAN BUSINESSMAN TO SELL THEIR PRODUCTS AND SERVICES.

(6) ENCOURAGE GOE TO ENGAGE A REPUTABLE AMERICAN INVESTMENT CONSULTANT.

4. WE BELIEVE THAT ACTIVITIES OF THIS JWG WILL BE SELF-GENERATING. AS IT MOVES FROM ONE SECTOR OF ACTIVITY TO ANOTHER, NEW OPPORTUNITIES WILL ARISE AND CAN BE WEIGHED FOR APPROPRIATE ACTION.

5. AS A FOOTNOTE, WE WOULD EXPECT THE INVESTMENT

GUARANTY AGREEMENT TO HAVE BEEN REACTIVATED BY THE  
TIME THE JWG MEETS. THIS MIGHT BE ANNOUNCED DURING  
SECRETARY SIMON'S UPCOMING VISIT.

6. SINCE FAHMY WANTS JWG'S ORGANIZED AT AUGUST JOINT  
COMMISSION ON COOPERATION (JCC) SESSION,  
GROUP SHOULD ENDEAVOR TO HAVE SOME TANGIBLE RESULTS  
ANNOUNCED DURING PRESIDENT SADAT'S TRIP TO  
THE UNITED STATES. UPCOMING VISI OF SECRETARY SIMON  
SHOULD OFFER FURTHER OPPORTUNITY PROBE PERTINENT  
EGYPTIAN THINKING.  
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